



The *Perseverance* to protect

2005 Financial Section



The *Vitality* to rebound



I am very pleased to present the AFRH financial statements in this PAR for FY 2005. Our report to the President and the American people indicates our stewardship of the public funds to which we have been entrusted. Like our resilient Veterans, the Home itself has rebounded. Overall, the AFRH Trust Fund experienced positive growth for the second consecutive year. This positive upward climb marks a new trend that has not been displayed in over a decade.

AFRH received an unqualified opinion on our FY 2005 financial statements. This demonstrates that the significant changes we have undertaken since 2002 to improve accountability have worked. In partnership with Bureau of Public Debt (BPD) in the Department of Treasury, AFRH is complying with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) – which are discussed in the Management's Discussion and Analysis Section. A special thanks goes to our financial partners at the BPD, who made this unqualified opinion possible.

Hurricane Katrina's strike to the Gulf Coast set in motion the exodus of long-time residents and staff of the Home in Gulfport, Mississippi. The effects of this storm have only begun to be realized. For the past few years, we have been working towards the "One Model" of operation with mirror

image management and services on our two campuses in Gulfport and Washington. Successful changes to our business practices in the past pushed the staff to continuously modify and adapt their day-to-day activities. Then, the storm of the century, Hurricane Katrina, overwhelmed us and forced us to combine residents and staff into one campus in Washington in the final month of FY 2005.

I am proud to acknowledge that our staff fulfilled their part as we strived to meet our strategic goals and objectives – as required by the Government Performance and Results Act (GPRA). We are now poised to continue this good work. Our ultimate plan is to return to Gulfport, yet the new temporary configuration in DC is challenging and thought provoking. We must take a strategic pause and reshape the AFRH Business Plan for FY 2006. All our strategic goals and objectives are affected and must be considered in light of our new circumstances. Rework of our strategy, along with our continued focus on process improvement will continue in FY 2006. Our plan remains to establish Management Boards and assemble teams for continued process improvement and compliance.

In the aftermath of Katrina, we took stock in our great fortune: no life was lost. For this, many thanks are in order. As the former Interim Director of AFRH-Gulfport and a participant in the evacuation, I was witness

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— Steven McManus, CFO

2005 FINANCIAL SECTION

The principal Financial Statements have been carefully prepared to report the financial position and operational results of the Home. These Statements should be read with an understanding that they are for a component of the US Government, a sovereign entity.

The AFRH financial management activities in FY 2005 – including purchasing, payments, accounting, budget and travel services – were administered by BPD. Our payroll and time/attendance data entry transactions were processed by the Department of Agriculture's (USDA's) National Finance Center (NFC).

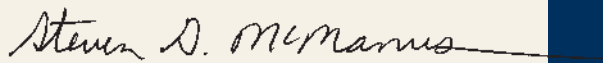
to the professionalism and hard work of our Gulfport staff. They performed flawlessly according to our emergency plans. The safe movement of our residents is a tribute to their dedication. Further, the rapid response by our Washington staff was equally impressive. We salute them for opening a mothballed building within the week to receive new occupants ... for sponsoring a hearty welcome for the displaced Veterans ... for recruiting on- and off-campus volunteers who helped so effectively ... and for maintaining and expanding operations with such dedication and resolve.

I want to extend a special thanks to the tough and talented Seabees (Navy Construction Battalion) for their unwavering support in Gulfport prior, during and after Katrina. With their help, we were able to prepare for the storm by installing plywood over windows and nailing down loose objects. During the storm, they also quickly moved handicapped residents away from rising waters. Likewise, after the storm they helped clean up debris and guard our campus. In the end, our success was greatly enhanced by their dedication and hard work.

The contract support that AFRH received from the BPD during the evacuation of Gulfport after Katrina is a model for public-to-public competitive sourcing. Starting with our limited connections via cell phone just after the hurricane, BPD acted

swiftly and decisively to assess our needs. With amazing efficiency, they procured dozens of requests – from charter buses, water and food – to pillows, blankets, and supplies. Thanks to BPD, our residents were out of harm's way within a day after the storm. Truly, the Home is proud to reaffirm their reputation as one of the best customer-service providers in the Federal Government.

FY 2005 was a complex year of reviews, inspections and audits ... as well as natural disasters, challenges and emotions. And we fared very well during all of them. In the wake of the storms, we look forward in FY 2006 to bring many new challenges. As always, we will look to improve our performance as we march with confidence toward our goals and objectives.



Steven G. McManus
Chief Financial Officer
Armed Forces Retirement Home
November 15, 2005

The Financial statements in this section include all required Notes plus the following:

- *Trust Fund Balance Sheet*
- *Statement of Net Cost*
- *Statement of Changes in Net Position*
- *Statement of Budgetary Resource*
- *Statement of Financing*
- *Supplementary Stewardship Reporting*

These operations were administered under cross-servicing agreements with the Departments of Treasury and Agriculture. The AFRH relies on information received from BPD and NFC (plus audits and other reviews) in order to execute its management control.



The *Foresight* to Plan

Our Grand Campus

For nearly a decade now, the Washington, DC Metropolitan Region has been one of the most fastest-growing and thriving economies in the US. The Home sits on a 272-acre site, nestled in the heart of the Nation's Capital – in the desirable Northwest portion of DC. As we look to the future, we must capitalize off this tremendous resource – and take advantage of unused or underutilized real estate.

Our Grand Plan

Currently, our campus is developed with more than 100 buildings and ancillary structures designated in the National Landmark District. AFRH has been developing a Master Plan for this campus to lead us into the future. This Plan will help generate much needed revenues and ensure the vitality of our Home for generations to come. So that we may continue to protect The Promise to care for our Veterans.

Our Alternatives

The Home will soon prepare a range of alternatives for future development on the AFRH campus as we finalize our Master Plan. We will also analyze the various impacts of those alternatives – to our residents as well as our bottom line.

As required by National Environmental Policy Act of 1969 (commonly referred to as NEPA) the Home will analyze alternative development scenarios. These are referred to as “proposed actions” in NEPA, whereas an alternative with no new development is referred to as the “no-action alternative.”

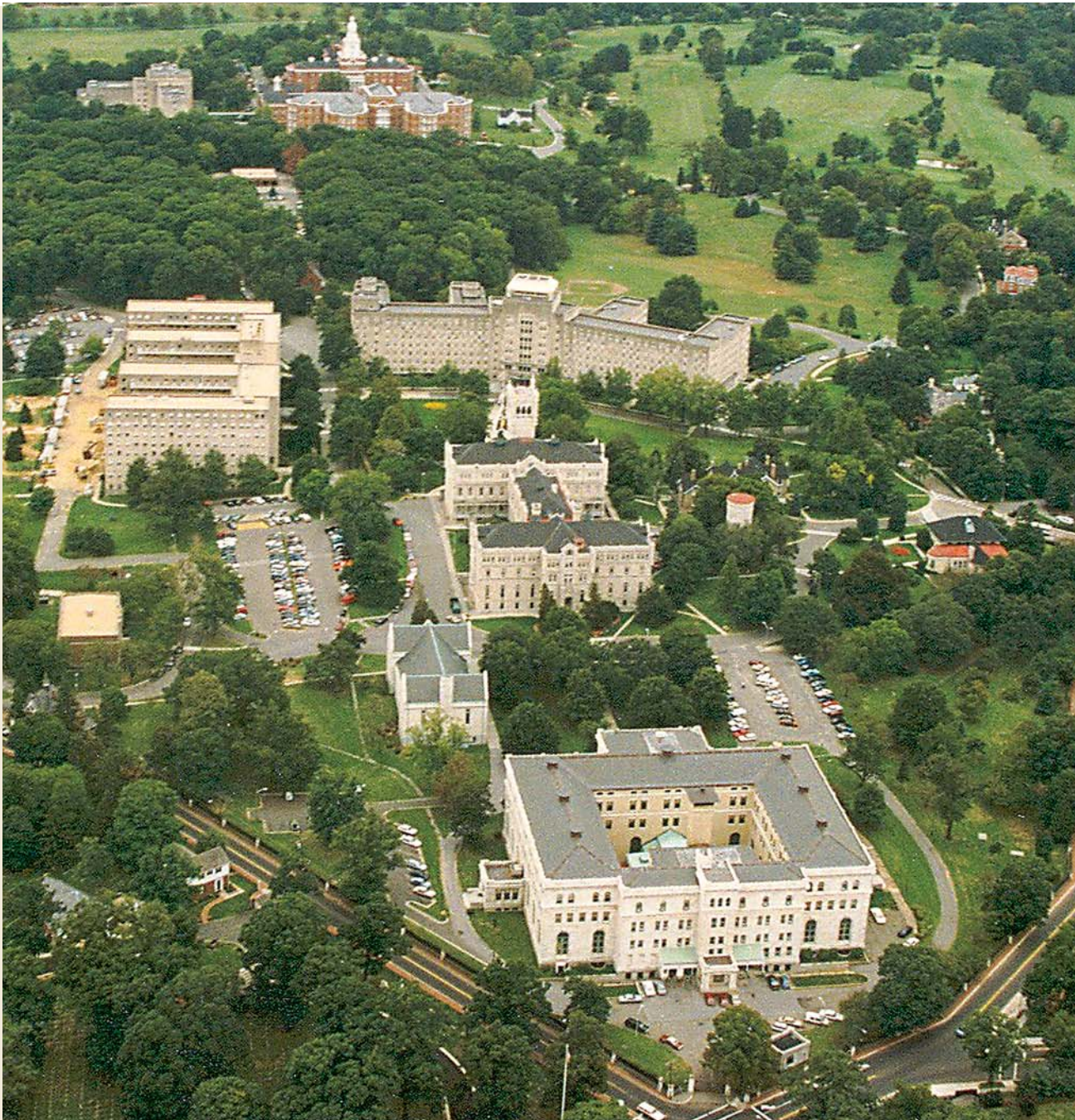
Our Considerations

Potential development on our expansive campus includes AFRH Facilities, Offices, Residential Quarters, Research and Development Facilities, Medical Related Services, Foreign Missions, Educational Institutions, Cultural Organizations, as well as Institutional and Ancillary Retail Shops. Once we meet with all related community groups and finalize our investors, we will make the most prudent decisions and move forward.



“Here, you get a room, a bed, 3 meals a day, a fitness center, bowling alley, huge library, computers for internet and games, primary care doctors plus trips, movies and base exchange! Everything you could want.”

—Philip Cardinalis, DC resident (and Newcomers Volunteer)



“

*I've been here
five years. This is
my security. I lost
my wife and my
daughter, so now
this is my home.”*

—Charles E. Recla,
DC resident
(Navy, Marines, Army -
retired 1972)



National Historic Preservation Act - Section 106

Section 106 of the National Historic Preservation Act of 1966 requires that Federal agencies take into account the effects of their actions on any district, site, building, structure, or object listed or eligible for inclusion in the National Register of Historic Places. AFRH, in consultation with the District of Columbia Historic Preservation Office, the Advisory Council on Historic Preservation, the National Park Service, and consulting parties, is preparing a Programmatic Agreement to determine how to protect historic resources and mitigate the impacts from the proposed Master Plan development.





BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

U.S. Armed Forces Retirement Home
Washington, D.C.

We have audited the accompanying consolidated balance sheet of the U.S. Armed Forces Retirement Home (AFRH) as of September 30, 2005, and the related consolidated statements of net cost, and changes in net position and of financing and the combined statement of budgetary resources for the year then ended. These financial statements are the responsibility of AFRH's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of AFRH as of September 30, 2004, were unaudited.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined statements referred to above present fairly, in all material respects, the financial position of AFRH as of September 30, 2005, and the results of its net costs of operations, changes in its net position, budgetary resources and financing for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2005 on our consideration of AFRH's internal control over financial reporting and a report dated October 28, 2005 on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of information. However, we did not audit this information and, accordingly, we express no opinion on it.

Brown & Company

Largo, Maryland
October 28, 2005

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**INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING**

U.S. Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the U.S. Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2005 and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered AFRH's internal control over financial reporting by obtaining an understanding of AFRH's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect AFRH's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

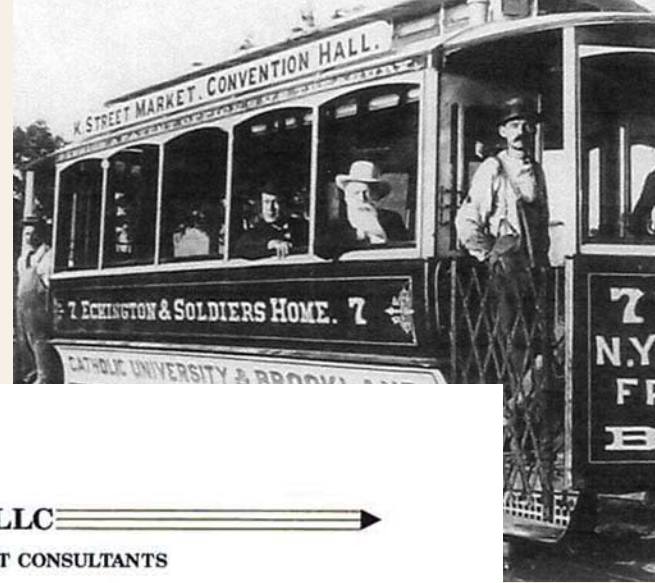
This report is intended solely for the information and use of the management of the U.S. Armed Forces Retirement Home, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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Largo, Maryland
October 28, 2005

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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

U.S. Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the U.S. Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of AFRH is responsible for complying with laws and regulations applicable to AFRH. As part of obtaining reasonable assurance about whether AFRH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the U.S. Armed Forces Retirement Home, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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Largo, Maryland
October 28, 2005

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